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Notes on the Cost Forum Held by New York Chapter, National Association of Cost Accountants

By A. R. KASSANDER
(*New York Office*)

On February 16, 1937, New York Chapter, National Association of Cost Accountants held a two hour cost forum for members only. In the following article the writer endeavors to set forth some of the more interesting questions which were presented and to note the broad trend of the discussion with respect thereto.

The forum was divided into four sessions of one-half hour each, devoted respectively to Material Costs, Labor Costs, Overhead Expense and Robinson-Patman Act Cost Procedure. Each session was directed by a session leader who introduced the subject briefly, called attention to the problems which seemed to be of greatest current interest to cost accountants based upon replies to a questionnaire which had been sent to members of the chapter, and guided the informal discussion from the floor.

Our New York office was represented on the program by Marshall

N. Granger, who acted as general chairman of the forum, and the writer, who acted as session leader for the half hour period devoted to labor costs.

Material Costs

The discussion on material costs was concerned principally with the use of price standards. Several members pointed out the problems involved in setting price standards with respect to a commodity subject to frequent fluctuations in market prices. The difficulties involved in establishing procedures, which on the one hand provide equitable bases for managerial control and comparisons with actual performance and on the other hand reflect fair inventory valuations, at the same time avoiding the necessity of too frequent changes in standards with accompanying changes in detail inventory records, were discussed. A solution which some of the members regarded favorably

was the use of a constant or basic standard within rather wide limits of actual market conditions coupled with the use of cost index ratios for the proper interpretation of balance sheet positions and results of operations.

A lively discussion took place as to the relative merits of taking up purchase price variances from standards at the time raw material is received and placed in stock, as opposed to charging raw materials into stores at actual cost and taking account of the variance at the point of movement of the material into work in process.

The consensus of the members present appeared to be that the latter method is preferable for at least two reasons:

1. By confining the variance accounts to work in process and finished goods, adjustments necessary for statement purposes are reduced both in complexity and number.

2. Standard cost procedures are primarily tools for the use of management in controlling manufacturing operations. Under such a concept all variances should be recognized when and as they affect manufacturing operations. The function of purchasing and placing in stock is not in itself an objective of the business but merely a preliminary step in the manufacturing process. Unless the management is intentionally speculating in raw materials, this group of members

felt that purchase gain or loss should be recognized only in the period in which the raw materials are converted into finished product.

Labor Costs

The session devoted to labor costs developed lively discussion on a number of questions. A large portion of the allotted time was devoted to the classification of direct and indirect labor. The point was made that the distinction between direct and indirect labor is often one of accounting treatment rather than strict adherence to a definition which defines direct labor as that performed directly on the product for the purpose of changing its shape, size or physical characteristics. Examples were presented to illustrate this principle.

Instances were mentioned of direct labor operations which require only a short time and which it is impracticable to distribute accurately to specific orders. Such operations are frequently accounted for as indirect labor.

On the other hand a group or gang piece work or bonus rate may include auxiliary labor not performed directly on the product. As the compensation of such employees is based on the production of the group it is definitely associated with the product and may be treated in the accounts as direct labor.

It was emphasized that the important consideration is that each business treat the subject consist-

ently throughout its various operations and in a manner which will express to the management the true facts and conditions as they exist in that business.

A member inquired as to the preferable treatment of reoperative labor due to defective workmanship. A suggested solution which appeared to meet with general approval was that reoperative labor on standard product manufactured for stock might well be considered as an indirect expense chargeable to all of the standard product and not associated directly with the particular order upon which the error occurred, but that a similar error occurring in connection with a special order should probably be charged to that order to fully disclose its cost.

As in the session on material costs, the question was again brought up as to the frequency with which labor standards in standard cost systems should be changed. It was pointed out that a labor standard is definitely an expression of what is considered satisfactory performance, a basis of comparison with actual results and a measure of labor efficiency. The time to change labor standards is when they no longer adequately serve these purposes.

The treatment of the new pay roll taxes in costs was discussed briefly. There was a small body of opinion which favored treating these items as additional labor cost.

However, a showing of hands disclosed that a great majority of those present was classifying this item as one of the elements of the overhead component of costs.

Overhead Expenses

The discussion of cost problems in connection with overhead expenses was divided broadly into two questions. The first dealt with the redistribution of service department expenses among the various production departments, and with the related problem of cross distribution within the service departments. The second question dealt with the treatment of over and underabsorbed expenses both for monthly statement purposes and at the close of the fiscal year.

The discussion on the first question, namely, monthly redistribution of service department expenses among production departments indicated that many companies are abandoning this expensive and time consuming procedure. It is felt by many cost accountants that when standard overhead rates are established, which are based upon budgeted expense allowances at normal production levels, more effective control and analysis of actual performance is possible by direct comparison of actual expenses in their natural classifications, with the related allowances upon which the overhead rates are based. This group of accountants is of the opin-

ion that no additional informational values are developed by monthly redistribution of expenses and computation of actual departmental rates. Of course the work of redistribution of budgeted expenses is necessary when developing the standard rates, but this operation then is performed only at such times as the rates are revised.

In connection with so-called "cross distribution" of service department expenses, most members felt that the benefit of the slightly more accurate eventual distribution among production departments was not commensurate with the difficulties presented by the complex mathematics involved in cross distribution and they favored "cutting the vicious circle" and making only one redistribution.

With respect to the treatment of over and underabsorbed expenses in monthly statements, opinion seemed to be about evenly divided between the practice of taking up the over or underabsorption currently in the profit and loss account and the alternative method treating underabsorption as a deferred charge or crediting overabsorption to a reserve account. It was generally agreed that any net overabsorption of expenses before being taken into income for the year should be adjusted for that portion which is contained in the inventories in order not to take credit in the income account for unrealized profits but that net underabsorption

should be written off in its entirety.

A small but vociferous minority felt that as a year was too short a period to include the complete economic cycle of a business, under or overabsorption of expenses should be carried over from year to year on the balance sheet, so as to level off the peaks and valleys of net profit. However, the great majority appeared to agree that as long as it is customary to review results of operations on an annual basis, it is necessary for a disclosure of the facts in each instance to adhere to the accepted principle of closing the nominal accounts to profit and loss at the end of the fiscal year.

Robinson-Patman Act—Cost Procedure

In introducing this subject the session leader stated that, in his opinion, a company would have to justify its price differentials by proving them warranted by one or more of the following reasons:

1. Difference in grade
2. Difference in quality
3. Not in interstate commerce
4. Not sold to competing customers
5. Not priced to injure, destroy or prevent competition, or to help to create a monopoly
6. Price cut to meet an equally low price of a competitor
7. Difference in price not greater than difference in costs of manufacture, sale and delivery

Existence of one or more of the following circumstances, he believed, would afford opportunity to

prove differences in costs of manufacture, sale or delivery between different customers or orders:

1. Lower material prices
2. Lower transportation and other handling expenses
3. Lower labor rates
4. Lower set-up, make-ready and clearaway expenses
5. Reduced expenses for training and instructing operators
6. Reduced overtime
7. Reduced clerical work
8. Reduced supervision and establishment expenses
9. Lower engineering expenses
10. Reduced sample expenses
11. Less waste in processing
12. Less idle plant expense
13. Lower sales solicitation expenses

The thought was expressed that it may or may not be permissible to reflect the above economies in differences in prices, under competitive conditions, depending upon how far the economies may be assignable to the business of a customer who seeks to benefit from them. Examples were given of items numbers 2, 4, and 13 above, and comments indicated that differences in sales solicitation expense were considered as opening a rich field for successful defense.

Several members who had had recent experience before the Federal Trade Commission participated in the discussion, as well as a number of members who had actually participated in the development of price structures which it was hoped would meet the requirements of this law.

Because of some uncertainty as to how far any proposed justification of price differentials must rest on concrete differences in methods of manufacture, sale or delivery, rather than on imputed or allocated costs based on mathematical or theoretical processes, it was felt that manufacturing costs may offer relatively few opportunities for the development of demonstrable differences in cost between different orders or customers for substantially identical products. This appears to be a question that is still wide open.

The most fruitful sources of cost differences between classes of customers apparently are to be found in the sales, distribution, warehousing, transportation, service and clerical expenses. It seemed to be characteristic of the experiences of those participating in the discussion that the basis of cost differences was usually one type of expense peculiar to the individual business.

Several members commented on the fact that their studies in connection with the law disclosed some valuable, and in some cases surprising, data as to relative costs of doing business with various customers.

It was evident at the close of the evening that none of the subjects had been exhausted in the allotted time and the members expressed a desire for more frequent opportunities for this type of meeting.

Recent Developments Regarding Regulation T*

By LESTER E. NORRIS
(New York Office)

Regulation T of the Federal Reserve Board, effective October 1, 1934, issued pursuant to the requirements of the Securities Exchange Act of 1934, for the purpose of preventing the excessive use of credit for the purchase and carrying of securities, contains the following clauses under "Section 4. Extension and Maintenance of Credit":

(c) Transactions in unrestricted accounts.—A creditor shall not permit any customer to make in an unrestricted account any transaction or combination of transactions which would cause such account to become a restricted account, unless he demands, in accordance with section 4 (e) of this regulation, additional margin in an amount sufficient to make such account an unrestricted account.

(d) Transactions in restricted accounts.—A creditor shall not permit a customer to make in a restricted account any transaction which, in combination with any other transactions made on the same day and together with demands for additional margin in connection therewith, results in any increase of the excess of the adjusted debit balance of the account over the maximum loan value of the securities

in the account, or results in any net withdrawal of cash and/or securities: Provided, however, That a creditor may permit a customer to make any transaction or combination of transactions which causes the account to become an unrestricted account: and Provided, That any substitution of securities consisting of a sale of securities in the account and the purchase of other securities, if completed within a period of two successive business days, may be considered for the purpose of this section as a single transaction occurring on the day on which the purchase occurs.

(e) Time when margin must be obtained.—Whenever the creditor is required to demand additional margin in order to comply with this regulation, he shall demand the required amount of margin as promptly as possible and shall obtain such margin as promptly as possible in view of the established usages of the trade and the circumstances of the case and in all events before the expiration of three full business days (exclusive of Saturdays, Sundays and holidays) from the date of the purchase or other transaction on account of which margin is required, unless, within such time such account is brought into conformity with this regulation by some other method: Provided, That, in exceptional cases, any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, of which exchange the creditor is a member or through which

*The November, 1934, issue of the *L. R. B. & M. Journal* contained an article by Mr. Norris on Regulation T under the Securities Exchange Act.

his transactions are effected, may grant a further extension of time, not exceeding ten days, on application of the creditor, if such committee is satisfied that the creditor is acting in good faith and that the circumstances warrant such action: Provided, however, That if the account be a restricted account (1) in the case of a withdrawal of cash, the necessary amount of securities must be deposited on the same day; (2) in the case of a withdrawal of securities, the necessary amount of cash must be deposited on the same day; and (3) in the case of a substitution of securities (not involving a sale of securities in the account and the purchase of other securities), the securities substituted must be deposited on the same day that the securities for which they are substituted are withdrawn.

An article in the newspapers of November 19, 1936, indicated that the Federal Reserve Board was not satisfied with the manner in which Stock Exchange firms permitted customers to conduct "in and out" trading under the clauses of Section 4 quoted above. It was indicated that certain customers carrying margin accounts had not been posting required margin "as promptly as possible" but were taking undue advantage of that portion of the regulation which applies to substitutions classified by the regulation as "single transactions," and of the portion which states that "Whenever the creditor is required to demand additional margin in order to comply with this regulation, he shall demand the required amount of margin as

promptly as possible and shall obtain such margin as promptly as possible in view of the established usages of the trade and circumstances of the case and in all events before the expiration of three full business days."

The newspaper article indicated that the Federal Reserve Board intended to deal with the situation under criticism by amending Regulation T to an extent that would cause the broker to require that any customer who purchased securities on margin should post such margin in advance of the purchase, or in any event, except in the case of purchases and sales made on the same day, not later than the end of the day on which the purchase was made.

No definite action toward such amendment has yet been taken by the Federal Reserve Board but the matter now is being given attention by officials of the New York Stock Exchange.

Under date of February 16, 1937, the Secretary of the Exchange sent the following communication to its members:

At a meeting of the Governing Committee held February 16, 1937, Chapter XV of the Rules adopted by the Governing Committee pursuant to the Constitution, was amended by adding a new section, to be known as Section 8, reading as follows:

"Sec. 8. (a) Each member, or firm registered on the Exchange, carrying margin accounts for customers shall make each day a record of every case

in which, pursuant to the rules of the Exchange or regulations of the Board of Governors of the Federal System, initial or additional margin must be obtained in a customer's account because of the transactions effected in such account on such day. Such record shall be preserved for at least twelve months, and shall show, for each such account, the amount of margin so required and the time when and the manner in which such margin is furnished or obtained. Such record shall be in a form approved by the Committee on Business Conduct, and shall contain such additional information as said Committee may from time to time prescribe.

"(b) No such member or firm shall permit a customer to make a practice of effecting transactions requiring such initial or additional margin and then furnishing such margin by the liquidation of the same or other commitments; except that the provisions of this paragraph (b) shall not apply to any account maintained for another broker or dealer in which are carried only the commitments of the customers of such other broker or dealer exclusive of his partners, provided such other broker or dealer

- (1) is a member of the Exchange or firm registered thereon; or
- (2) has agreed in good faith with the member or firm carrying the account that he will maintain a record equivalent to that referred to in paragraph (a) of this section; or
- (3) is not subject to the regulations of the Board of Governors of the Federal Reserve System."

Paragraph (a) of this Section shall be effective on a date to be announced by the Committee on Business Conduct. Paragraph (b) is effective immediately.

Subsequent to the issuance of the foregoing circular, the Exchange designed and delivered to member firms a form designated "Record of Required Margin" which calls for the following information:

1. Trade date of transactions requiring margin;
2. Name of customer or account designation;
3. If omnibus account, indicate what type;
4. Total amount of initial or additional margin required by day's transactions;
5. Date on which margin was obtained;
6. Manner in which margin requirement was met;
7. Remarks: state any special circumstances.

This form must be maintained daily by all member firms carrying margin accounts and a copy of it must be furnished to the Exchange weekly.

On February 26 the Committee on Business Conduct of the Exchange supplemented the bulletin of February 16 with the following letter to members and firms carrying margin accounts:

The Committee on Business Conduct has received numerous inquiries regarding the proper application of the recently adopted Section 8, Chapter XV of the Rules, to substitutions of securities of the type in which, after purchasing securities, a customer sells other securities in his account on the next business day. In order to facilitate general understanding of the rule as applied to substitutions, and to provide for uniform treatment of substi-

tutions in the record prescribed by paragraph (a) of the rule, the Committee directs the attention of members and firms carrying margin accounts to the following:

Paragraph (b) prohibits a member from permitting a customer to make a practice of effecting transactions requiring initial or additional margin and then furnishing such margin by the liquidation of the same or other commitments. Hence, if a customer made a practice of effecting in his account transactions requiring margin and then furnishing such margin by liquidation of securities on the following business day, such a practice would be in violation of paragraph (b) of the rule.

In each case where a customer effects transactions in his account on a given day that result in a requirement of margin at the end of that day, such margin requirement must be entered in the record prescribed by paragraph (a) of Section 8, Chapter XV, even though the customer may intend to complete a bona fide substitution by a sale of securities on the following day. If such bona fide substitution is completed by the sale of other securities on the next business day, such sale should be indicated on Form BCM by the abbreviation "liq." in Column 6, and a notation "Substitution—under Sec. 4 (d) of Regulation T" in Column 7.

When a customer in good faith makes a permissible substitution of securities in his account, by selling securities on the business day following the date on which he purchased other securities, such a substitution, if standing alone, would not constitute a violation of the Exchange's rule. However, the firm carrying the account should take care to satisfy itself that such transactions, particularly if of repeated occurrence, are bona fide substitutions and do not represent attempts

to evade the rule by purchasing and carrying securities overnight without providing margin.

It has been stated that investigation by the Exchange has shown that in numerous instances customers with accounts in the restricted class (accounts in which at the beginning of business on any given day, the adjusted debit balance exceeds the loan value at such time of the securities in the account) or those bordering on the restricted class because an additional commitment would probably place them therein, have been permitted to make new commitments which either increased the debit balance in a restricted account or made a restricted account of one bordering on that class. It has been further stated that such customers, instead of promptly supplying the margin necessary to carry the new commitments, have made a practice of supplying such margin through the sale (in one or two, or in numerous instances the full three, business days later) of the security purchased or of other securities of approximately the same value carried in their accounts.

It is this practice which the Exchange has ordered discontinued.

There are cases in which a customer with good intent buys one security and orders the sale of another security to provide margin. Because of a "thin" market it may not be possible to effect the sale on

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The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvement; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

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Governmental Regulation of Business

The Robinson-Patman Act, which was enacted less than a year ago, is continuing to give business men a great deal of concern as to the extent to which they may have to modify past selling policies and price structures. Considerable difference of opinion exists with

respect to the interpretation of the Act. At the present time the Federal Trade Commission is conducting hearings in a number of complaints which allege violations of the Robinson-Patman Act. Some of the concerns against which complaints have been filed are of national reputation.

It seems quite likely that in at

least some of the cases, if the Commission finds adversely to those against whom the complaints have been filed, appeals will be taken to the courts. Therefore business managements are bound to remain in more or less uncertainty until the courts have finally spoken as to how the Act shall be interpreted and applied.

The widespread interest in the subject and its evident importance are indicated by the attention which is being given to it by various organizations. Trade associations are giving it much study and keeping their members advised of developments.

The New York Chapter of the National Association of Cost Accountants, in devoting its February meeting to a Cost Forum, added to the time honored subdivisions of the broad subject of manufacturing costs, viz., materials, direct labor and overhead expenses, a new subdivision, cost procedure under the Robinson-Patman Act. The Graduate School of Business Administration at Harvard University arranged a number of conferences for business executives on Price Policies in Relation to the Competitive System, which were held in February and March. The Robinson-Patman Act and its effect upon price structures, cost accounting, etc., received very considerable attention on the program and in the conference discussions.

The present issue of our JOURNAL contains an article summarizing the presentations and discussions at the N. A. C. A. Cost Forum above referred to. Attention is called particularly to the section dealing with cost procedure with relation to the Robinson-Patman Act. It will be found to contain some concrete suggestions for consideration. It is also suggested that members of our organization will find a re-reading of Mr. Kassandra's earlier article in the September, 1936, issue of our JOURNAL profitable, as it contains some very practical thoughts and suggestions with respect to cost accounting for the purposes of business done under the Act.

Business regulation by law, and particularly the imposition of price restrictions, seems to be proceeding apace. On February 15, Mr. Patman, one of the authors of the Robinson-Patman Act, introduced a bill in Congress "to prevent manufacturers of products from offering for sale and selling the same at retail in certain cases, and for other purposes." The possibility of the introduction of such a bill was indicated in the September, 1936, issue of our JOURNAL.

The Court of Appeals of New York State on March 9 reversed its previous decision and sustained the Feld-Crawford Price Fixing Act as the law of the state. This law gives the manufacturers of patented and

trade-marked articles the right to prescribe a price below which they may not be resold by retailers. The reversal by the court of its earlier decision was evidently occasioned by the decision of the U. S. Supreme Court a short time ago holding such a law to be constitutional.

An interesting indication of the far-reaching effect of much recent legislation affecting business is indicated by the following paragraph in a registration statement filed by a prominent corporation which was making a stock offering to its stockholders:

The Company has not attempted in this Registration Statement to discuss, outline, or appraise recent legislation (including the acts of Congress commonly known as the Walsh-Healey, Robinson-Patman and National Labor Relations acts and the numerous state anti-price discrimination laws) or recent economic, industrial, international and other developments of a general character, the possible effect of which upon the business of the Company cannot at the present time be definitely forecast or described. The Company believes that no such appraisal can accurately be made. Attention is called, however, to increasing costs, contributed partially by such legislation as the Social Security Act and by legislation with respect to the taxation of corporations, particularly the Federal Revenue Act of 1936.

Although no one would suggest that improvements in accounting methods are the panacea for all the troubles which may arise from this

legislation to plague the business man, this much at least may be said, that good accounting records are needed by the concern which wishes to justify its price and selling procedures where questions of cost differentials and similar problems are liable to arise.

Recent Developments Regarding Regulation T

(Continued from page 9)

the first or second days, three days being required to consummate same. Such a transaction is recognized by the Exchange as a permissible substitution but it must not be allowed to become a general occurrence.

This article has been written primarily as a matter of general interest to our organization and not with the thought that it has a direct reference to the scope of, or requirements for, an examination of the accounts of a stockbroker. Ordinarily, brokers who have their accounts examined by certified public accountants, whether for the purpose of a Stock Exchange questionnaire or for the purpose of a fidelity policy, do not expect the accountants to make any examination with respect to the observance of Regulation T. Where such examination or inquiry is to be made by the accountants, it would be the subject of special instructions by the client.

Some Important Differences Between New York State and Federal Personal Income Tax Laws*

By H. E. BISCHOFF
(New York Office)

In 1919 the New York state legislature established a personal income tax effective January 1, 1919 (Laws, 1919, Chapter 627), which applied to persons, estates and trusts (both resident and non-resident) but not to corporations.

The federal individual income tax law had already been in operation for approximately six years at that time and the state legislature apparently thought well of it since in many respects the New York state law is patterned after the federal statute.

In defining "income" the state law merely paraphrased the federal statute with such changes as seemed necessary to fit the case, e. g., the selection of January 1, 1919, in place of the federal date of March 1, 1913, the *inclusion* of state salaries and interest on state securities generally and the *exclusion* of federal salaries and interest on federal securities.

In the time allotted to me, it is impossible to cover all of the differences between the federal and New York state laws and accordingly I

am circumscribed to the extent of pointing out some of the more important differences between the two statutes.

The State of New York does not impose an income tax as such upon corporations but with certain exceptions most business corporations are subjected to the franchise tax under Article 9-A. There accordingly is lacking any fair basis of comparison between the federal income tax on corporations and the tax imposed on corporations by the State of New York. For this reason, as well as the more important reason that I must confine myself to the subject of this paper, my remarks will be limited to the personal income tax.

Income

Income From Salaries

Salaries or other compensation of federal employees, although subject to tax under the federal act, are exempt from taxation under the New York state law. On the other hand, salaries and other compensation of officers and employees of the state and its political subdivisions in the

* A paper read before The New York Society of Accountants, February 23, 1937.

operation of a governmental function are exempt for federal tax purposes but taxable by the state.

Interest

Under the federal law interest on obligations of a state, territory or political subdivision thereof, is exempt from tax. There is also exempt interest on obligations issued under the Federal Farm Loan Act, obligations of the United States issued on or before September 1, 1917, interest on Treasury notes, bills and certificates of indebtedness and there is partially exempt the interest on U. S. Savings Bonds and Treasury Bonds.

For New York state tax purposes, interest on all obligations of the United States or its possessions, or securities issued under the Federal Farm Loan Act, War Finance Corporation or Reconstruction Finance Corporation, is entirely exempt.

Interest on obligations of states and political subdivisions thereof, other than the State of New York, is taxable.

A matter often overlooked is that the interest on obligations of the State of New York or any municipal corporation or political subdivision thereof, is not subject to the state tax. This also applies to interest from the Savings and Loan Bank of the State of New York upon bonds issued by it pursuant to the provisions of the banking law. Although interest on bonds

issued by the Home Owners' Loan Corporation is not to be included in gross income for state tax purposes, such bonds fall in the category of "obligations of instrumentalities of the United States," the interest from which is subject to surtax for federal tax purposes.

Capital Gains and Losses

Under the federal revenue act, only a portion of capital gains or losses is taken into account in computing net income. For example, if stock which has been held over ten years is sold at a gain of \$10,000, only 30 per cent. of such gain, or \$3,000, is included in taxable income, whereas, if similar stock returning a similar profit has been held only from one to two years, 80 per cent. of such profit, or \$8,000, is included. The federal tax law further restricts the allowance of capital losses to the amount of capital gains plus \$2,000. No similar restriction occurs in the New York state law. However, capital gains and losses are not considered in computing the net income subject to the 2 per cent. minimum normal tax, or the 1 per cent. emergency tax for the year 1936.

Basis for Determining Gain or Loss

Under the federal law, where property was acquired prior to March 1, 1913, and later disposed of, the basic value is cost or March 1, 1913 value, whichever is greater

when computing gain and cost for determining loss. If the selling price is higher than cost but less than March 1, 1913 value, no gain or loss results.

Under the state law where property was acquired prior to January 1, 1919, the basic value is cost or fair market value January 1, 1919, whichever is higher, in determining profit, and cost or fair market value January 1, 1919, whichever is lower, in determining loss.

Property Acquired by Gift

In the case of property acquired by gift subsequent to December 31, 1920, for federal purposes the basis used to determine profit is the same as the basis to the donor or last preceding owner not acquiring the property by gift but the basis for loss is such amount or the value at date of gift, whichever is lower. The same procedure is followed under the New York statute except that it applies to property acquired subsequent to December 31, 1927.

Income From Royalties

In 1928 the United States Supreme Court in *Long v. Rockwood*, 277 U. S. 142, ruled that income received as royalties on patents and copyrights was income from federal instrumentalities and not taxable by the state. However, in 1932 the Supreme Court expressly reversed its former opinion and declared income from such sources to be taxable by a state (*Fox Film*

Co. v. Doyal, 286 U. S. 123). The State Tax Commission now taxes income from such sources.

Stock Dividends

The Revenue Act of 1936 taxes all stock dividends to the extent permitted by the 16th Amendment to the Constitution, but does not state what stock dividends or stock rights do not constitute income within the meaning of that Amendment. In *Eisner v. Macomber*, 252 U. S. 189, the U. S. Supreme Court held that a dividend paid by a corporation on its common stock by issuing additional common stock to stockholders was not income within the meaning of the 16th Amendment and therefore not taxable. However, in *Koshland v. Helvering*, 56 S. Ct. 767, the Supreme Court held that where preferred stockholders received a dividend in common stock, they received income which could be taxed under the 16th Amendment.

It would appear from the foregoing decisions the Court has laid down the rule that if the payment of a stock dividend gives the stockholder an interest different from that which his former stockholdings represented, he receives income, but the question of what constitutes a taxable stock dividend is still unsettled.

The New York state tax regulations define "stock dividends" as "new stock issued, for surplus or profits capitalized, to shareholders

in proportion to their previous holdings" and add, "When received by a shareholder, they shall not be subject to tax." Although this would seem to mean that stock dividends are not subject to New York state tax, in view of the unsettled state of this question for federal tax purposes, it is unsafe to say that the State Tax Commission will not follow the federal law and limit non-taxable stock dividends to the same extent. In fact, some states already have laid down a rule similar to that established by the *Koshland* case.

Section 350 of the state tax law defines the word "dividend" as "any distribution made by a corporation out of its earnings or profits to its shareholders or members, whether in cash or in other property." This would seem to infer that dividends from earnings are taxable regardless of when earned. Under the federal law distributions from earnings prior to March 1, 1913, are not taxable.

Distributions in Liquidation

Under the Revenue Act of 1936, the amount received by an individual shareholder upon complete liquidation of a corporation is applied against his basis for the stock and the difference, if it be a gain, is taxed in the same manner as a gain realized from the sale of capital assets, i. e., if the stock has been held for more than one year, only a portion of the gain is taken into

account in computing net income, the proportion dropping to 30 per cent. where the stock has been held for a period of more than ten years. The state law does not follow the federal law to the point of limiting the amount of gain to be taken into account. In other words, the full amount of any excess received over the basic value of the stock is a taxable profit for both normal tax and emergency tax. Under the federal law gains realized from partial liquidations, as distinguished from complete liquidations, are 100 per cent. taxable.

Losses from distributions in liquidation are allowed in full for both normal and emergency state tax purposes. Under the federal law losses upon distributions in liquidation are capital losses deductible only from capital gains plus \$2,000.

Deductions

Interest Paid

Under the federal law all interest paid or accrued except that on indebtedness incurred to purchase or carry securities the interest on which is wholly exempt, is an allowable deduction. Article 136 of the New York state regulations reads: "A resident is entitled to deduct from gross income all interest paid or accrued during the taxable year, except interest paid or accrued in connection with the ownership of real or personal property, current income from which is not required

to be included in gross income." From this it would appear any interest paid on indebtedness incurred to carry securities or other property the income from which is exempt would *not* be an allowable deduction for New York state tax purposes.

Taxes Paid

The federal law allows an individual taxpayer to deduct taxes paid or accrued in the taxable year, except federal income taxes, estate, inheritance, legacy, succession, gift taxes or taxes assessed against local benefits of a kind tending to increase the value of the property assessed. It should be noted that the New York state income tax is not *excluded* as a deduction for federal tax purposes. Under the state law, no income, estate, inheritance, legacy, succession or gift taxes (either state or federal) are deductible. Unless care is taken, a taxpayer is liable to fall into the error of deducting the New York state income tax in both his federal and New York state tax returns, whereas, such a deduction is only allowed for federal tax purposes.

Under the State Tax Commission's ruling dated January 26, 1937, contributions by employers under the New York State Unemployment Insurance Act are considered taxes within the meaning of Section 360 of the tax law and as such are deductible from gross income for personal income tax

purposes. That tax, the Federal Social Security taxes paid by employers, as well as the New York City sales tax, are allowable deductions under both laws.

Cooperative Apartments

No deduction is allowed a stockholder of a corporation conducting a cooperative apartment for the expenses of the corporation in computing his federal income. A proportionate share of taxes (other than franchise taxes) and interest paid by the corporation is deductible by a stockholder of a corporation conducting a cooperative apartment when arriving at the taxable income for New York state purposes.

Bad Debts

The federal law allows a reasonable addition to reserve for bad debts when computing net income, whereas, for state tax purposes, additions to reserve for bad debts are not allowed. Of course, debts actually ascertained to be worthless and written off during the year are allowable deductions under both laws.

Wash Sales

The federal limitation on the deduction for losses resulting from wash sales of securities, i. e., where substantially identical securities were acquired within a period beginning thirty days before the date of such sale and ending thirty days

after such date, does not apply under the state law. The latter law allows all losses sustained if incurred in trade or business or if incurred in any transaction entered into for profit without any restriction even though substantially identical securities are acquired on or about the date of the sale. This difference between the two laws is very often overlooked and a taxpayer who has applied the limitation with reference to wash sales in preparing his federal return is often prone to make a similar adjustment in his New York state return.

Depreciation

As to property acquired prior to March 1, 1913, the value of depreciable property at that date is made the basis for depreciation computations under the federal return, whereas, for New York state tax purposes, the value as at January 1, 1919, is used for any property on hand at the date of the incidence of the tax. In the case of property acquired subsequent to those respective dates, cost is used for computing depreciation under the relevant acts.

Nonresidents

Federal Law Procedure

As a result of a change in the 1936 Revenue Act a nonresident alien individual not engaged in trade or business within the United States and not having an office or place of business therein, is not tax-

able on capital gains. Such an individual is taxable only on the periodical income from United States sources to which the withholding provisions apply, including dividends. He is entitled to no deductions, credits or exemptions, and the rate of tax is a flat 10 per cent., except that in the case of a resident of Canada or Mexico the rate may be reduced by treaty to not less than 5 per cent.

Withholding is required at the rate of 10 per cent. on and after July 2, 1936, with respect to periodical income, including dividends, unless the rate is reduced by treaty with Canada or Mexico.

If a nonresident alien individual is engaged in trade or business in the United States, or has an office or place of business therein, he is taxable on all income derived from sources within the United States at the regular normal and surtax rates with a \$1,000 exemption.

State Law Procedure

Under the New York law a tax is imposed upon all the income of a resident from whatever sources derived but only upon the income of a nonresident, which is derived from sources within the state.

Definition of Resident

The Regulations define a resident of New York State as "a natural person who is either (1) domiciled in the State of New York and who either (a) maintains a permanent

place of abode within the state or (b) maintains no permanent place of abode without the state or (c) spends in the aggregate more than thirty days of the taxable year within the state or (2) one who even though domiciled outside of the State of New York maintains a permanent place of abode within the state and spends in the aggregate more than seven months of the taxable year within the state."

The State Tax Commission takes the position that if an individual resident were, for example, to move out of the state during August and earn a substantial part of his income outside of the state for the remainder of the year, he would, nevertheless, have to pay a New York state income tax on his entire earnings for the year. Apparently the State Tax Commission bases its position on *People ex rel. John D. Ryan v. State Tax Commission*, 262 N. Y. 1. Since it would seem that the state loses jurisdiction over an individual who becomes a nonresident, it would appear that the attempt to tax income other than that derived from property owned or business done in the state during the nonresident period may be subject to constitutional attack.

Where a person becomes a resident of the State of New York during the taxable year, he is required to file two separate returns (1) a nonresident return (Form 203) for the period during which he was

a nonresident and (2) a resident return (Form 201) for the period he was a resident.

A resident is obliged to report his income from whatever source derived whereas a nonresident is obliged to report only income derived from sources within the state. The Regulations define income from sources within the state to mean (a) from all property owned and (b) from every business, trade, profession or occupation carried on in the State of New York. It does not include income arising from annuities, interest on bank deposits, interest on bonds, notes or other interest-bearing obligations or dividends from corporations, except to the extent to which the same shall be a part of the taxable income from any business, trade, profession, or occupation carried on in this state by the nonresident taxpayer. The U. S. Supreme Court in *Whitney v. Graves*, decided January 4, 1937, held that gain derived by a nonresident broker from the sale of a membership in the New York Stock Exchange constitutes income which is taxable by New York State.

If an individual has no permanent place of business in the State of New York but derives his income chiefly from a salary paid to him from New York state sources which is earned for the most part outside of the state, a tax advantage may accrue if he establishes a residence outside of the state and

meets the other requirements to enable him to report as a nonresident. Furthermore, if his past experience in trading on the Stock Exchange tends to show that in future years he could expect to make substantial income from this source as well as income from interest and dividends from securities, it would be still more advantageous to establish himself as a nonresident since income from that source is not subject to tax unless received in connection with a business conducted within the state, e. g., a brokerage business.

Before any such move is made, however, the taxpayer should carefully consider possible offsetting disadvantages through becoming a resident of another state, with particular attention to real estate, personal property, estate and inheritance taxes in that state which if given proper consideration might offset the possible tax advantages gained by reporting as a nonresident of the State of New York.

Deductions

In general, a nonresident is allowed the same deductions as those allowed a resident with the important exception that they must have been sustained in connection with income arising from sources within the state, taxable to the nonresident, i. e., in connection with property owned or with a business, trade, profession or occupation carried on within the state.

Allocation of Income

The question very often arises as to the allocation to the state of earnings of salesmen, employees, and officials of corporations maintaining offices in New York. As early as November 8, 1922, the Tax Commission issued a ruling which is still being followed and which may be used as a guide for making allocations. The pertinent part of that ruling follows:

When a nonresident officer or employee of a corporation earns his salary by working sometimes within and sometimes without the State, his earnings should be allocated on the basis of the efforts made within and without the State. If he works on a commission basis, it is usually possible to say how much of his commissions he earned in the State, and how much of his commissions he earned without the State. When he works on a salary basis allocation should be made on the basis of working time within the State and working time without the State, without any relation to the earnings of the corporation or the extent of the corporation's business within or without the State.

Income from business carried on both within and without the state must be allocated to New York on a fair and equitable basis. If the books are kept so as to regularly disclose the proportion of the business income earned from sources within the state, such information can be made the basis of apportionment. Otherwise, the income must be apportioned in accordance with these New York state factors:

(1) value of real and personal property; (2) wages, salaries, and compensation and (3) sales.

Personal Exemptions, etc.

The same personal exemptions apply to both a resident and non-resident as do also the rates of normal tax, minimum tax and emergency tax.

Credit Against Tax

In those cases where a nonresident is subject to income tax in the state or foreign country in which he resides, he may claim as a credit against the tax due New York the proportionate part of such tax as applies against his New York state income provided such state or country has a similar reciprocal law or taxes its residents without taxing residents of New York state.

Computation of Tax

Exemptions

The personal exemptions for individuals are the same under both laws:

<i>Status of Taxpayer</i>	<i>Exemption</i>
Single	\$1,000
Married or head of family..	2,500
Dependents (each)	400

In both cases the personal exemption is prorated where a change of status occurs during the taxable year, e. g., where a single person

marries or a dependent child reaches the age of 18 during the taxable year.

Rates

The federal law imposes a normal tax at the rate of 4 per cent. and in addition surtaxes which are computed on a graduated scale, beginning with the rate of 4 per cent. on from \$4,000 to \$6,000 and increasing to 75 per cent. on over \$5,000,000 of surtax net income. In other words, the maximum federal tax on surtax net income over \$5,000,000 is imposed at a combined normal and surtax rate of 79 per cent.

The New York state law does not provide for surtaxes. The net income after applying the personal exemption and credit for dependents, is subjected to the following rates:

- 2 per cent. on first \$1,000 of taxable income
- 3 per cent. of net income in excess of \$1,000 but not exceeding \$3,000
- 4 per cent. of net income in excess of \$3,000 but not exceeding \$5,000
- 5 per cent. of net income in excess of \$5,000 but not exceeding \$7,000
- 6 per cent. of net income in excess of \$7,000 but not exceeding \$9,000
- 7 per cent. of net income in excess of \$9,000.

The state law also provides for a minimum normal tax under which the tax computed at the above rates cannot be less than 2 per cent. of a taxpayer's net income after excluding any capital gains or losses provided they occur from the sale or exchange of real or personal property not connected with any trade or business of the taxpayer, and after deducting the personal exemption and credit for dependents.

In recent years the State Legislature has also passed laws providing for emergency taxes. In computing the tax for the years 1935 and 1936, there is added to the normal tax a tax of 1 per cent. on net income computed after excluding any capital gains and capital losses from the sale or exchange of property not used in the taxpayer's business, and after deducting the personal exemption and credit for dependents. Although termed an "emergency tax," the apparent lack of any intention to reduce state expenditures would seem to indicate that the "emergency" may be expected to continue with us for a number of years at least.

The maximum total tax to be paid on income exceeding \$9,000 after giving effect to the personal exemption and credit for dependents is therefore 8 per cent. as compared with the federal law maximum of 79 per cent. on income in excess of \$5,000,000 over personal exemptions.

Earned Income Credit

There is no equivalent in the state law to the earned income credit allowed in computing the federal tax.

Payment of Tax

The total federal tax is payable in quarterly instalments beginning with the fifteenth day of the third month following the end of the taxable year, or may be paid in full on that date. The New York state normal tax is payable in full at the time of filing the return which is due on or before the fifteenth day of the fourth month following the end of the taxable year, or one-half of the normal tax may be paid at that time, one-fourth on or before two months and the remaining one-fourth on or before six months after the return shall have become due. The total emergency tax is payable in full at the time the return is due to be filed.

In those cases where individuals carry on unincorporated business, provision is made (Article 16A) for taxing such business in addition to the income tax. A special resident return (Form 201B) and all nonresident returns make provision for the calculation of such tax, which is computed at the rate of 4 per cent. of the net income from unincorporated business conducted in the State of New York. The effect of this is to duplicate the tax on business income although the legislature, when passing the law,

had in mind balancing the competitive conditions as between incorporated and unincorporated businesses.

Withholding at Source

The employer of a nonresident is obliged to withhold the normal and emergency tax from any fixed and determinable income earned in the state, less personal exemptions and credit for dependents. The amount of tax withheld must be reported to the New York State Income Tax Bureau, Albany, N. Y., on or before February 15th of each year for the previous year. The amount of tax thus withheld should be claimed as a credit by the nonresident employee when he files his nonresident return.

Tax-Free Covenant Bonds

The state does not provide for a credit against the tax in the case of tax-free covenant bonds, similar to that allowed under the federal law. Accordingly, no ownership certificates need be filed when interest coupons are presented for payment similar to those required for federal tax purposes.

Administrative Provisions

The administration of the federal tax differs to a degree from that of the New York State Tax Commission. In the main, however, the collection and assessment of both taxes follow similar lines. Whereas, after the review of a return, the Treasury usually notifies the taxpayer of a proposed deficiency and grants him an informal hearing before assessing the tax, the State Tax Commission often issues a notice and demand for additional tax without holding a preliminary hearing. If such notice and demand is not paid within ten days of the date thereof a five per cent. penalty and interest at one per cent. per month is added provided upon subsequent review no change is made in the additional tax.

The taxpayer in each instance has the right to litigate any additional assessment. However, there is no provision under the New York law for a body similar to the United States Board of Tax Appeals which hears federal tax cases only.

Book Reviews

Federal Income Tax Handbook

The February issue of The Bulletin of the National Retail Dry Goods Association contained the following review of the latest edition of Colonel Montgomery's work on income tax:

Another one of the notable works of Colonel Montgomery has recently been issued.

The book does more than explain the Law and the regulations. It points to the Treasury Department, Board of Tax Appeals and Court decisions to indicate what may or may not be done to save on income taxes.

Colonel Montgomery spares no words in criticizing some of the decisions on tax cases, nor does he hesitate to grope for tender words when more forceful ones better express his views regarding the Federal Income Tax Law in general. Witness, speaking of the Law: "It contains many unfair and discriminatory provisions." And again "The Law is needlessly complex, expensive to administer and expensive to comply with."

It is not, however, for the attack on the Law and some of its "features which are positively brutal" that the book will be read and studied. Rather, it is because the book was written to acquaint the reader of his rights and privileges: "for it would be silly to pay more than we owe."

The Chapters—"Recognition of Gain or Loss," "Basis for Determining Gain or Loss," "Deductions for Losses," and "Surtax on Undistributed Profits" will, without doubt, be constructively help-

ful to every reader who has anything to do with taxes, individual or otherwise.

The book has been added to the Taxation Library of the Controllers' Congress with much satisfaction and is recommended to all controllers.

Retail Merchandise Accounting

The following review by Mr. J. P. Friedman of Mr. Bell's book with the above title, recently published by Ronald Press, appeared in the *Monthly Bulletin* of the New York State Society of Certified Public Accountants:

This latest book on the accounting problems of the retail store covers a wide scope. Several chapters are devoted to a discussion of all phases of retail inventories and there are chapters on such subjects as merchandise budgets, unit stock controls, control of merchandise orders and invoices and receiving and marking, statements of merchandise operations, allocation of expenses to departments, workrooms, and some tax problems and procedures of retail merchandise accounting.

The discussion of retail inventories is quite comprehensive and the chapter thereof devoted to "methods of providing for future markdowns or expected losses" takes up the need for reserves which the public accountant has long recognized but upon which little has appeared in print until comparatively recently. It will be interesting to observe whether the need for such reserves will be considered to be

(Continued on page 26)

Notes

Mr. Perry has again been appointed campaign audit chairman for the 1937 drive of the Community Federation of Boston for funds to support the charitable agencies of the city. For this work some 75 volunteer auditors have to be organized to work half days over a two weeks' period, verifying the contents of pledge envelopes and preparing the cash and subscription material for accounting control by the Federation's staff.

On January 20 Mr. Hermon F. Bell participated in the Taxation program of the Annual Meeting of the National Retail Dry Goods Association in New York by delivering an address on "Depreciation from the Point of View of Tax Regulations." A summary of the address appeared in the February issue of the Bulletin of the Association.

At one of the series of conferences held at the Harvard University Graduate School of Business Administration in February and March on the subject of Price Policies in Relation to the Competitive System, Mr. Staub spoke on the practical effects of the Robinson-Patman Act on general and cost accounting problems entering into the formulation of selling policies.

The meeting of the New York

Chapter of the National Association of Cost Accountants on February 16 was devoted to a Cost Forum, the chairman being Mr. Marshall A. Granger of our New York staff. Mr. A. R. Kassander, also of the New York staff, was the session leader for that period of the Forum which was devoted to Labor Costs.

Mr. John W. Conrad, manager of our Rockford office, addressed the chapter of the National Association of Cost Accountants in that city on the subject of "What Is Normal Plant Capacity? Should production cost be relieved of fixed charges on idle plant facilities, excess facilities partially used, and excess fixed charges on plant acquired at high cost?" At another meeting of the same organization Mr. Wood spoke on "Should variances from standard be absorbed in the period in which the goods are produced or in the period in which the goods are sold?" Mr. Myers, also of the Rockford staff, addressed the Rockford Business and Professional Women's Club on the subject of the Social Security Act.

The March 7 issue of *The Miami Herald* contained an illustrated account of the work Colonel Montgomery has done in collecting many varieties of palm trees and cyads in preparation for their transfer to the

Fairchild Tropical Gardens or arboretum as soon as a suitable site therefor has been obtained. The creation and development of such an arboretum has been a favorite project of the Colonel's for a number of years and he has been closely associated with Doctor Fairchild in planning for it. The cyads are particularly rare and interesting, the collection including specimens from South America, Australia, Mexico, Cuba and a number of native Florida plants. One of the oddest is from Australia and is round and barrel-like in shape and is said to grow one foot in height in 1,000 years.

The following members of the staff have recently passed the C. P. A. examinations:

New York

Ralph N. Apple
T. A. Eliason
John R. Jacobsen
John M. Johansen
Sidney A. Stahlschmidt
Dana G. Wager
Lionel C. Wainwright

Chicago

C. F. Miller

Pittsburgh

Carl F. Schatz

Mr. N. B. Bergman recently addressed Sigma Pi Alpha, a fraternal accounting society in New York, on the Revenue Act of 1936.

One of the effects of the recent floods in the Ohio River valley is indicated by the following note which appeared in the *New York Times* of February 20:

The annual meeting of stockholders of the Axton-Fisher Tobacco Company will be held on April 6 instead of March 2 because floods at Louisville delayed completion of the audit of the company's books.

The note was of particular interest to our organization because our firm has been the auditors of the company for quite a number of years.

Book Reviews

(Continued from page 24)

quite so universal as indicated and to what extent the method suggested will be found acceptable. The chapter devoted to mathematics of retail merchandise accounting should be very helpful to those concerned with the merchandising operations. The chapter on taxes sets forth some of the more important problems ordinarily faced by the retailer.

The book throughout gives evidence of having been written with great care and covers the subject in a comprehensive manner. It will be found to be a distinct contribution to retail literature—helpful both to the retail controller and to the public accountant.

Profits of Leading Corporations in 1935 and 1936

In the March, 1933, issue of the L. R. B. & M. JOURNAL we reprinted from the March, 1933, business and financial letter of the National City Bank of New York a summary of "Industrial Corporation Profits for the Years 1931 and 1932." At that time the following observation was made in the text of the article referring to the summary:

Considering the progressive business difficulties of the past three years, the ability of nearly half of the corporations to readjust their production costs and other expenses sufficiently to still show a profit is extremely encouraging. As sales figures are not published by the majority of concerns, it is impossible to measure exactly the decline in gross that has occurred.

A decided change as to manufacturing and trading profits has taken place since the summary with reference to the year 1932 was published. The extent of such change is portrayed by a tabulation of profits of leading corporations for the years 1935 and 1936 just published by the National City Bank, which is reproduced on page 28. Following is a part of the Bank's comment thereon:

With the publication during the past month of additional corporation reports for 1936, we give on the next page a final tabulation of earnings, embracing 2,140 industrial, public utility, railroad, financial and miscellaneous companies. Aggregate profits, after taxes and less deficits, amounted to approximately \$3,633,000,000 in 1936, compared with \$2,473,000,000 in 1935, or an increase of 46.9 per cent. As these companies had a capital and surplus of \$49,143,000,000 at the beginning of 1936, profits last year were at the rate of 7.4 per cent. on net worth, compared with 5.0 per cent. in 1935. While the foregoing figures cover a representative cross-section of American business, they should not be considered as complete. For the latest official summary of earnings of all corporations in the United States, we refer the reader to the table on page 53, compiled from the Treasury "Statistics of Income" and covering the years 1916-1934.

Taking the manufacturing and merchandising group separately, figures for 1,600 companies, with aggregate net worth of \$24,270,000,000, showed combined net profits, less deficits of \$2,446,000,000 in 1936, compared with \$1,606,000,000 in 1935, a gain of 52.3 per cent. The rate of profits return on net worth increased from an average of 6.6 per cent. in 1935 to 10.1 per cent. in 1936, a figure, however, which should be viewed in the light of the large decline in industrial capital and surplus that occurred during the depression.

PROFITS OF LEADING CORPORATIONS FOR THE YEARS 1935 AND 1936

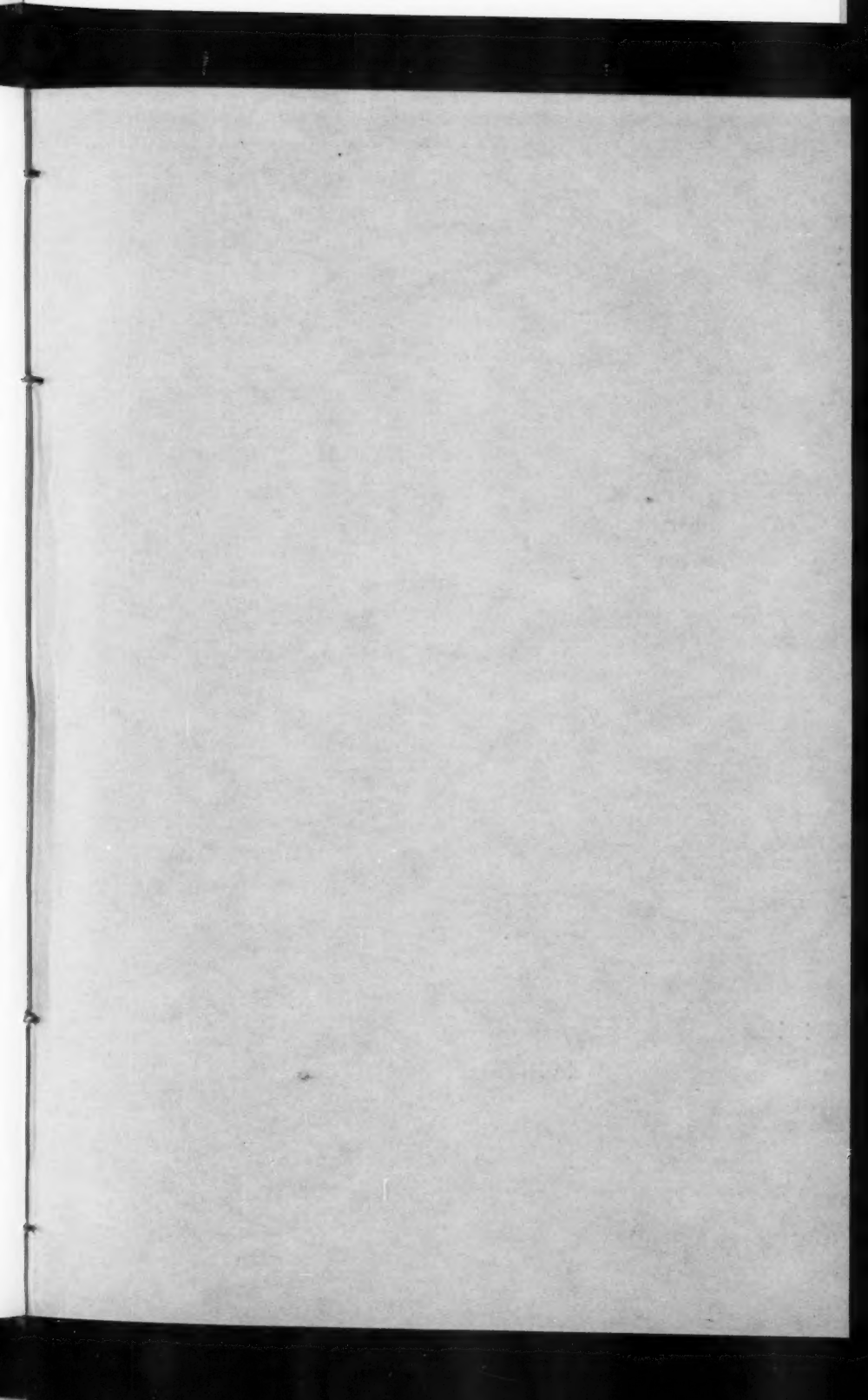
Net Profits Are Shown After Depreciation, Interest, Taxes, and Other Charges and Reserves, but Before Dividends.

Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.

(In Thousands of Dollars)

No.	Industry	Net Profits Years		Per Cent Change	Net Worth January 1		Per Cent Change	Per Cent Return 1935-1936
		1935	1936		1935	1936		
10	Agricultural Implements	\$32,498	\$ 54,161	+ 66.7	\$ 426,011	\$ 442,638	+ 3.9	7.6 12.2
18	Amusements	17,117	36,039	+110.5	359,800	372,727	+ 3.5	4.8 9.7
20	Apparel	6,980	10,338	+ 48.1	120,697	114,084	- 5.5	5.8 9.1
31	Automobiles	198,593	317,462	+ 59.9	1,257,076	1,292,220	+ 2.8	15.8 24.6
34	Auto Accessories	44,419	54,026	+ 21.5	311,625	324,919	+ 4.3	14.5 16.6
22	Aviation	6,783	11,990	+ 76.8	113,898	126,396	+11.0	6.0 9.5
19	Bakery	16,646	24,574	+ 47.6	305,552	300,022	- 1.8	5.4 8.2
68	Building Materials	23,660	48,247	+103.9	608,711	598,928	- 1.5	3.9 8.1
29	Chemicals	144,125	192,438	+ 33.5	1,225,966	1,262,383	+ 3.0	11.8 15.2
24	Coal Mining	D-1,243	3,031	+	504,147	458,999	- 9.0	.....
21	Confectionery and Beverages	34,125	40,653	+ 19.1	166,008	173,327	+ 4.3	20.6 27.5
13	Construction	D-538	2,737	.....	53,342	79,459	+ 4.6	.....
25	Containers	46,027	47,137	+ 2.4	411,091	419,151	+ 2.0	11.2 11.2
64	Cotton Goods	D-6,728	15,244	+	296,832	282,648	- 4.8	.....
12	Dairy Products	17,308	27,043	+ 56.2	306,485	274,858	-10.2	5.6 9.8
31	Drugs and Sundries	36,708	42,204	+ 15.0	237,871	242,033	+ 1.7	15.4 17.4
50	Electrical Equipment	57,613	90,115	+ 56.3	785,217	781,025	+ 2.1	7.5 11.6
6	Fertilizer	5,639	1,104	- 69.6	80,381	81,777	+ 1.7	4.5 1.4
46	Food Products—Misc.	17,023	55,331	+ 20.1	799,769	798,610	- 0.2	15.5 4.4
38	Hardware and Tools	9,686	19,538	+103.8	161,973	167,241	+ 3.3	6.9 11.7
20	Heating and Plumbing	11,446	27,704	+142.0	309,937	314,590	+ 1.4	3.7 8.8
59	Household Goods and Sup.	40,716	66,512	+ 38.8	428,729	436,723	+ 1.9	9.5 12.9
16	Ice and Cold Storage	3,157	4,592	+ 45.5	108,860	97,293	-10.6	2.9 4.7
55	Iron and Steel	54,001	161,212	+198.4	3,714,369	3,438,814	- 7.5	1.5 4.7
5	Leather Tanning (a)	2,317	2,495	+ 7.7	59,891	55,872	- 6.9	3.9 4.4
44	Liquors	21,563	26,472	+ 23.5	127,228	139,393	+ 9.5	17.0 19.1
78	Machinery	21,777	47,913	+120.0	417,011	410,594	- 1.5	6.2 11.7
19	Meat Packing	27,313	30,923	+ 13.2	565,325	560,386	- 0.9	4.8 5.5
44	Mdse.—Chains, Food	16,329	16,964	+ 3.9	188,179	189,162	+ 0.4	8.7 9.0
44	Mdse.—Chains, Other	90,237	104,964	+ 16.3	600,781	632,362	+ 5.3	15.0 16.6
35	Mdse.—Dept. Stores	10,662	22,430	+112.4	280,870	286,210	+ 1.9	3.8 7.8
8	Mdse.—Mail Order	38,446	55,330	+ 45.2	336,157	365,298	+ 9.0	11.4 15.2
28	Mdse.—Wholesale, etc.	9,086	9,182	+ 80.1	112,166	113,596	+ 1.6	4.5 8.0
16	Mining, Copper	27,292*	41,332*	+ 51.4	898,234	994,512	+ 0.5	2.8 4.2
32	Mining, Other Non-ferrous	88,591*	112,352*	+ 26.8	898,279	955,963	+ 6.4	9.0 11.8
20	Office Equipment	25,671	34,442	+ 34.2	218,380	211,392	- 3.2	11.8 16.3
19	Paint and Varnish	9,765	12,696	+ 29.1	111,434	109,908	- 1.4	8.8 11.5
47	Paper and Products	3,152	23,585	+647.6	598,422	595,822	- 0.3	0.5 4.0
67	Petroleum	82,158	134,821	+ 64.1	1,610,764	1,692,305	+ 5.1	5.1 8.5
10	Petroleum—Pipe Line	6,694	6,453	- 3.6	71,577	70,323	- 1.8	9.4 9.2
28	Printing and Publishing	17,915	20,839	+ 16.2	154,364	156,943	+ 1.7	11.6 13.3
26	Railway Equipment	D-3,284	26,617	+	742,616	715,535	- 3.6	.....
11	Restaurant Chains	772	2,799	+262.5	58,596	67,198	- 2.5	1.3 4.9
22	Rubber Tires, etc.	17,156	42,083	+145.2	418,708	428,426	+ 2.3	4.1 9.8
10	Shipping	1,682	4,759	+182.9	108,993	110,712	+ 1.6	1.5 4.3
20	Shoes	14,821	15,364	+ 3.6	170,084	189,606	+ 0.3	8.7 9.1
39	Silk and Rayon	10,079	14,324	+ 42.1	162,509	164,447	+ 1.4	6.2 8.7
44	Sugar	21,266	31,645	+ 48.2	441,448	448,687	+ 1.6	4.8 7.0
26	Textile Products—Misc.	12,619	19,141	+ 51.6	158,955	162,248	+ 2.1	7.9 11.8
29	Tobacco	87,722	98,609	+ 12.3	830,218	767,245	- 7.6	10.6 12.8
3	Woolen Goods	4,902	4,661	- 4.9	93,686	97,126	+ 3.7	5.2 4.8
67	Miscel. Manufacturing	65,798	93,886	+ 42.7	651,958	687,820	+ 5.5	10.1 13.7
48	Miscel. Services	9,566	14,688	+ 55.1	235,580	233,778	- 0.8	4.1 6.4
1600	Total Mfg. and Trading	1,605,720	2,445,812	+ 52.3	24,426,308	24,270,254	- 0.6	6.6 10.1
144	Class I Railroads	D-1,374	169,901	+	11,987,848	11,775,921	- 1.8	.....
94	Electricity, Gas, etc. (b)	284,471	313,807	+ 10.2	5,187,780	5,189,278	+	5.5 6.0
28	Telephone and Telegraph	157,295	210,361	+ 33.7	3,276,806	3,204,737	- 2.2	4.8 6.6
24	Street Railways	D-5,940	D-1,683	-	487,529	482,068	- 1.1	.....
61	Banks and Trust Cos.	149,248	164,180	+ 10.0	1,985,605	2,009,379	+ 1.2	7.5 8.2
62	Insurance Companies (c)	193,021	197,864	+ 2.5	598,867	753,773	+25.9	32.2 26.2
68	Investment Trusts (d)	45,576	76,126	+ 67.0	949,195	1,030,727	+ 8.6	4.8 7.4
24	Sales Finance Cos.	41,527	54,257	+ 30.6	249,565	297,214	+13.1	16.6 13.3
55	Real Estate	1,763	2,292	+ 27.8	141,712	131,973	- 6.9	1.3 1.7
2140	Grand Total	22,472,297	33,632,652	+ 46.9	\$49,291,125	\$49,143,328	- 0.3	5.0 7.4

D—Deficit. (a) Sample not representative of all branches of the industry because of the limited number of published reports available. (b) Figures refer to shareholders only. Because of the large proportion of bonded indebtedness, actual return on the property investment is less than the above. (c) Fire and casualty. Figures represent shareholders' combined gains or losses on underwriting and investments. (d) Net income shown as reported, not including such profits or losses on investments sold as were carried directly to surplus or reserves, or changes in the market value of portfolios. * Before certain charges.



Lybrand, Ross Bros. & Montgomery Offices

<i>Cities</i>	<i>Addresses</i>
NEW YORK:	Downtown, 90 Broad Street Uptown, 1 East 44th Street
PHILADELPHIA	Packard Building
CHICAGO	231 South LaSalle Street
BOSTON	80 Federal Street
NEWARK	744 Broad Street
BALTIMORE	First National Bank Building
WASHINGTON	Investment Building
PITTSBURGH	Union Bank Building
DETROIT	Book Building
CLEVELAND	Midland Building
CINCINNATI	Carew Tower
LOUISVILLE	Heyburn Building
SAINT LOUIS	411 North Seventh Street
ROCKFORD	321 West State Street
ATLANTA	Healey Building
DALLAS	First National Bank Building
HOUSTON	Shell Building
SAN FRANCISCO	2 Pine Street
LOS ANGELES	621 South Spring Street
PORTLAND	Porter Building
SEATTLE	Skinner Building

EUROPE

LONDON, ENGLAND	3 St. James's Square, S. W. 1
PARIS, FRANCE	3 Rue des Italiens
BERLIN, GERMANY	Luisenstrasse 29

